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Committee on Commerce

U.S. House of Representatives • **Thomas J. Bliley, Chairman**

316 Ford House Office Building
Washington, D.C. 20515
(202) 226-2424
Fax (202) 226-2447

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To: KAREN KORNBLUH

Fax Number: 418-2806

From: TRICIA PAOLETTA / MIKE O'REILLY

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Notes:

Please cc: REH
Dan Gips
Diane Cornell } IB
Peter Cowhey
Tom Boasberg

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U.S. House of Representatives
Committee on Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515–6115

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Dear Chairman Hundt:

We are writing to express our interest in the revisions to the international settlement rates benchmarks that the Federal Communications Commission recently propose[redacted] We strongly support the Commission issuing rules which move settlement rates to cost for all countries as expeditiously as possible. We believe that such reform will benefit consumers in the U.S. and around the globe.

The U.S. has the most competitive telecommunications market in the world. U.S. consumers deserve to have the benefits of competition in the international telecommunications market -- i.e., the lowest possible prices for all services, including international calling. Due to the monopoly structure of the majority of other telecommunications markets, and the lack of transparency regarding the actual rates other national carriers charge to terminate international calls, international settlement rates are far higher than cost. For example, the average price for a domestic long-distance call in the U.S. in 1994 was 16 cents; the average price for an international call was 99 cents. Only a small portion of this difference is due to higher costs involved in placing international calls. Reforming settlement rates, the largest cost component in international calls, will promote the price competition that U.S. consumers enjoy for domestic calling. It will also contribute substantially to reducing our trade deficit by bringing down the net outpayments U.S. carriers pay under the current system, estimated to be $5.5 billion in 1996.

In addition to hurting U.S. consumers by raising U.S. carriers' costs, the settlement rate system creates a rich revenue stream that encourages incumbent foreign telecommunications companies to maintain their monopoly in order to control the settlement payments. With such a financially rewarding settlement stream, foreign governments have little incentive to reform their regulatory policy and permit competitors to offer international services. This in turn minimizes market opportunities for U.S. telecommunications service providers overseas.

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Foreign-owned carriers are increasingly interested in providing services to the U.S. market, the largest telecommunications market in the world. If the World Trade Organization's negotiations on basic telecommunications conclude successfully next month, access to the U.S. market will be subject to non-discrimination obligations. Foreign-owned carriers' ability to self-correspond from the U.S. will provide them with important cost advantages, since they will not be required to pay above-cost settlements to a third party. We therefore urge the Commission to adopt as a condition of entry into the U.S. market a requirement that a foreign-owned carrier settle its traffic with affiliated carriers at no lower than the settlement rate that U.S. carriers pay to non-affiliates. We believe that as long as the Commission applies this requirement, based on the same cost methodology, to any foreign-owned carrier as a condition for entry, then the Commission rules will be consistent with the non-discrimination requirements of the WTO's General Agreement on Trade in Services.

In its *Notice of Proposed Rulemaking* on settlements, the Commission proposes that U.S. carriers negotiate settlement rates that are within new benchmark ranges. The Commission proposes three ranges, based on whether foreign countries are classified as low-, mid-, or high-income economies. The maximum rate for each of the three ranges is based on the respective countries' average tariffed rates for three relevant network components, and the minimum rate for each range is based on the Commission's estimate of the incremental cost of completing an international call (6-9 cents).

We support the Commission's use of several benchmark ranges as an interim step toward moving settlement rates to cost. However, we believe that settlement rates ultimately should not be greater than the actual incremental cost of completing an international call for all countries. Therefore, we urge the Commission to work to further reduce the maximum rates in each benchmark range toward cost on an aggressive schedule. The Commission should obtain from U.S. carriers, on a confidential basis, their incremental costs for terminating international traffic. The Commission can then continue to reduce settlement rates over time based on an accurate and complete factual record relating to cost. If the same methodology is used for determining the benchmark on differing-country routes, we believe the benchmarks will be consistent with the non-discrimination obligations of the WTO.

The Commission's work to reduce settlement rates to cost is vitally important to U.S. consumers, in addition to telecommunications providers. Therefore, we intend to monitor whether settlement rate reductions are resulting in consumer price reductions. The Commission should make future settlement rate reductions contingent on real reductions in consumer prices. Telecommunications providers should know that further Commission action in this area is dependent, in part, on the extent to which cost savings derived from the Commission's settlement rules are passed on to their customers.

The Commission proposes that U.S. carriers be given transition periods during which they can continue to settle with foreign carriers at rates outside the benchmark ranges. The lengths of the transition periods are based on the degree of development of the specific foreign countries involved. Members of the International Telecommunication Union ("ITU"), a body of the United Nations, adopted in 1992 a Recommendation that member countries reform settlement rates to be costoriented within five years. By the time the FCC adopts an order revising settlement rates later this year, that five-year period will have run. ITU Members have already had five years to transition, and the vast majority have not reduced their operators' settlement rates to cost. Clearly, that experience has demonstrated that other countries will take as long as possible to reform the settlements system. We therefore support a minimal transition period for countries to reform their settlement rates.

We agree with the Commission that the application of cost-based settlement rates is a more efficient way for foreign countries to increase telecommunications revenues and build infrastructure than reliance on a non-market-oriented settlement system. The use of cost-based rates by foreign carriers will result in lower consumer rates, increased demand for international services, and higher revenues driven by higher volumes. Thus, lower settlement rates are in the interest of other nations' telecommunications providers and consumers, because they enable a combination of lower prices and increased revenues which can be used to fund infrastructure development.

Improved telecommunications infrastructure development in other countries also provides economic opportunities for U.S. providers of goods and services. As other countries develop, so do markets for U.S. goods and services. Furthermore, lower foreign phone rates and traffic growth make it easier for U.S. businesses to operate overseas, creating both additional revenue and jobs.

For countries that need subsidies to develop infrastructure beyond what is provided through the Commission's proposed transition plan to benchmark rates, we encourage the Commission to work with international lending organizations to develop alternative sources of infrastructure development loans. Although many foreign countries have a keen interest in retaining the subsidies generated by the current system, history has shown that artificially high settlement streams have been ineffective in encouraging investment in telecommunications infrastructure, and actually work to create a disincentive to reform regulatory policies to permit competition. For the above reasons, we support the Commission's proposal and urge you to incorporate the suggestions made herein.

Sincerely,

Tom Bliley
Chairman

John D. Dingell
Ranking Democratic Member

W.J. "Billy" Tauzin
Chairman, Subcommittee on
Telecommunications, Trade and
Consumer Protection

Michael G. Oxley
Chairman, Subcommittee on
Finance and Hazardous Materials